

# PUBLIC VERSION

Postal Regulatory Commission  
Submitted 12/12/2014 3:49:13 PM  
Filing ID: 90887  
Accepted 12/12/2014

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

MARKET DOMINANT PRODUCT PRICES  
INBOUND MARKET DOMINANT MULTI-SERVICE AGREEMENTS WITH  
FOREIGN POSTAL OPERATORS

POSTNL - UNITED STATES POSTAL SERVICE BILATERAL  
AGREEMENT (MC2010-35)  
NEGOTIATED SERVICE AGREEMENT

Docket No. R2015-3

**UNITED STATES POSTAL SERVICE RESPONSE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 1**  
(December 12, 2014)

The United States Postal Service provides its responses to Chairman's Information Request No. 1, which was issued on December 9, 2014. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Anthony F. Alverno  
Chief Counsel  
Global Business and Service Development

James M. Mecone

475 L'Enfant Plaza, S.W.  
Washington, D.C. 20260-1137  
(202) 268-6525; Fax -6187

# PUBLIC VERSION

## UNITED STATES POSTAL SERVICE RESPONSE TO CHAIRMAN'S INFORMATION REQUEST NO. 1

1. If the Commission cannot find that the Agreement “improve[s] the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service,” under 39 U.S.C. § 3622(c)(10)(A)(i), *see also* 39 C.F.R. § 3010.42(f), the Commission may also approve the agreement on an alternative ground if it “enhance[s] the performance of mail preparation, processing, transportation, or other functions” under 39 U.S.C. § 3622(c)(10)(A)(ii); *see also* 39 C.F.R. § 3010.42(g). The Postal Service is required to discuss the nature and expected impact of each enhancement. 39 C.F.R. § 3010.42(g). In its Notice, the Postal Service identifies three performance improvements:

- (1) The agreement of both parties to work together to revise the Accounting Business Rules to include settlement related changes,
- (2) Both parties are encouraged to offer one another incentives for optional activities such as sortation and separation changes, and
- (3) Annex 3 contains suggested Office of Exchange Routing details and information about the Offices of Exchange where Register Mail can be accepted.

*Id.* at 5. The Notice states that “These performance improvements should enhance the performance of mail preparation, processing, transportation and other functions related to the delivery services provided for inbound Letter Post items under the Agreement.” *Id.*

- a. Please discuss the nature and expected impact of each of items (1), (2), and (3) on the performance enhancement of mail preparation. As part of your response, please explain how each of items (1), (2), and (3) are required by the Agreement and how they enhance the performance of mail preparation.
- b. Please discuss the nature and expected impact of each of items (1), (2), and (3) on the performance enhancement of mail processing. As part of your response, please explain how each of items (1), (2), and (3) are required by the Agreement and how they enhance the performance of mail processing.
- c. Please discuss the nature and expected impact of each of items (1), (2), and (3) on the performance enhancement of mail transportation. As part required by the Agreement and how they enhance the performance of mail transportation.
- d. Please identify each other function that the Agreement is expected to enhance. For each other function identified, please discuss the nature and expected impact of each of items (1), (2), and (3) on such other functions. As part of your response, please explain how each of items (1), (2), and (3) are required by the Agreement and how they enhance each other function identified.

# PUBLIC VERSION

## UNITED STATES POSTAL SERVICE RESPONSE TO CHAIRMAN'S INFORMATION REQUEST NO. 1

### RESPONSE:

a-d. As a preliminary matter, the Postal Service maintains its position that the Agreement improves the net financial position of the Postal Service. As demonstrated below and in the Postal Service's earlier comments,<sup>1</sup> the Public Representative's conclusions reflect two errors. First, in the Public Representative's comparison of the UPU and negotiated rates, the multiplier applied to the UPU rates is different from the multiplier applied to the negotiated rates. The Public Representative contends that he applied no multiplier to the UPU rates, and that the multiplier applied to the negotiated rates is identical to the multiplier applied by the Postal Service.<sup>2</sup> However, as confirmed by the Excel file submitted with these responses, the UPU provisional quality of service linked terminal dues rates (UPU PQSL rates) reflect the application of a multiplier ([REDACTED]) to UPU base rates, and this multiplier is based on Postal Service performance levels in 2013. The multiplier incorporated in the UPU PQSL rates cited by the Public Representative differs from the multiplier applied to the negotiated rates by the Public Representative, and to both the UPU base rates and negotiated rates by the Postal Service ([REDACTED]), because the multiplier applied by the Postal Service reflects its own, more current expectations of performance levels in 2015 and 2016, rather than past performance levels achieved in 2013.

---

<sup>1</sup> United States Postal Service Comments in Response to Public Representative Comments on Postal Service Notice Concerning Type 2 Rate Adjustment and Royal PostNL BV Negotiated Service Agreement, Docket No. R2015-3 (December 5, 2014).

<sup>2</sup> Public Representative Reply Comments in Response to Postal Service Comments Concerning Type 2 Rate Adjustment and Royal PostNL BV Negotiated Service Agreement, Docket No. R2015-3 (December 5, 2014) at 2-3.

# PUBLIC VERSION

## UNITED STATES POSTAL SERVICE RESPONSE TO CHAIRMAN'S INFORMATION REQUEST NO. 1

### RESPONSE TO QUESTION 1 (CONT.)

But putting aside the disagreement regarding the multiplier that will apply to the 2015 and 2016 rates, the most significant aspect of the Public Representative's calculations is his comparison of rates that reflect different multipliers. The negotiated rates are tied to the UPU rates, and regardless of the multiplier warranted by Postal Service performance levels, in all cases the multiplier applied to the negotiated rates will equal the multiplier incorporated in the UPU PQSL rates. Accordingly, the Public Representative's comparison of two rates that reflect different multipliers is not an accurate representation of the rates that will apply in 2015. As demonstrated in tab 18 of the Excel file submitted with these responses, application of the multiplier incorporated in the UPU PQSL rates to only the 2015 rates still results in a net financial benefit for the Postal Service.

The second error in the Public Representative's analysis arises because the Public Representative bases his conclusions on an assessment of financial effects for only one year (2015) of the two-year Agreement. The Agreement considered in this docket covers a two-year period, and thus the most comprehensive financial effect of the Agreement is measured by evaluating the Agreement over the full two-year term. Because

**[REDACTED]**, as demonstrated in the financial workpapers submitted with the Postal Service's initial notice in this docket, an evaluation of the Agreement over a two-year period would reveal a greater net financial benefit than an incomplete evaluation confined to 2015.

In addition to the net financial benefit described above, the Agreement creates a business relationship that enhances the performance of mail preparation, processing, transportation and other functions related to the delivery services provided for inbound Letter Post items under the Agreement. Annex 3 to the Agreement identifies the

# PUBLIC VERSION

## UNITED STATES POSTAL SERVICE RESPONSE TO CHAIRMAN'S INFORMATION REQUEST NO. 1

### RESPONSE TO QUESTION 1 (CONT.)

appropriate points of entry for mail included within the scope of the Agreement. The sortation of mail consistent with the Office of Exchange Routing details and information included in Annex 3 to the Agreement results in a cost reduction and service improvement for the Postal Service because these sortation activities reduce the mail preparation, processing, and transportation required for the delivery of mail. Without the sortation activities performed pursuant to Annex 3, the Postal Service would incur higher costs because of the additional mail preparation, processing, and transportation activities that would be required for mail delivery.

In addition to the cost reductions and service improvements described above, through the Agreement, the Postal Service obtained **[REDACTED]** that would otherwise apply and lead to reduced revenues attributable to the delivery of mail included in the Agreement. **[REDACTED]**

# PUBLIC VERSION

## UNITED STATES POSTAL SERVICE RESPONSE TO CHAIRMAN'S INFORMATION REQUEST NO. 1

2. Other than the three performance improvements provided in the Notice, are there any other performance improvements associated with the Agreement? If so, please identify each additional performance improvement associated with the Agreement and discuss the nature and expected impact of each additional performance improvement on mail preparation, mail processing, mail transportation, or any other function identified. As part of your response, please explain how each additional performance improvement is required by the Agreement and how it enhances the performance of mail preparation, mail processing, mail transportation, or any other function identified.

### **RESPONSE:**

Not Applicable.

# PUBLIC VERSION

## **UNITED STATES POSTAL SERVICE RESPONSE TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

3. If applicable, please provide any method(s) used in measuring each of the three performance improvements listed in the Notice, and any additional performance improvements provided as a result of this Chairman's Information Request.

### **RESPONSE:**

Not Applicable.